

## SUBCOMMITTEE NO. 4

## Agenda

Mike Machado, Chair  
Tom McClintock  
Christine Kehoe



Thursday, April 6, 2006  
9:30 a.m. or Upon Adjournment of Session  
Room 112

Consultant: Dave O'Toole

### “B” AGENDA

<u>Item Number and Title</u>	<u>Page</u>
<b><i>Vote-Only Budget Items</i></b>	
0950 State Treasurer .....	2
0954 Scholarshare Investment Board .....	2
0956 California Debt and Investment Advisory Commission.....	2
0959 California Debt Limit Allocation Committee .....	2
0965 California Industrial Development Financing Advisory Commission.....	2
0968 California Tax Credit Allocation Committee .....	2
0971 California Alternative Energy & Advanced Trans. Financing Authority .....	2
0977 California Health Facilities Financing Authority .....	2
0985 California School Finance Authority .....	2
9840 Augmentation for Contingencies and Emergencies .....	3
9850 Loans for Contingencies or Emergencies.....	3
Control Section 4.75 – Statewide Surcharges .....	3
<b><i>Discussion Items</i></b>	
0650 Office of Planning and Research .....	4
0845 Department of Insurance .....	6
1760 Department of General Services .....	9

---

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

## **VOTE-ONLY BUDGET ITEMS**

### **0950 State Treasurer's Office**

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Governor's budget funds 222.8 positions (with no new positions) and expenditures of \$22.8 million.

The Treasurer's Office also plays a central administrative role to numerous state boards, authorities and commissions. The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Several of the following agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

<b><u>Budget Item</u></b>	<b><u>Title</u></b>
<b>0954</b>	<b>Scholarshare Investment Board</b>
<b>0956</b>	<b>California Debt and Investment Advisory Commission</b>
<b>0959</b>	<b>California Debt Limit Allocation Committee</b>
<b>0965</b>	<b>Calif, Industrial Development Financing Advisory Comm.</b>
<b>0968</b>	<b>California Tax Credit Allocation Committee</b>
<b>0971</b>	<b>Calif. Alt. Energy &amp; Advanced Trans. Financing Authority</b>
<b>0977</b>	<b>California Health Facilities Financing Authority</b>
<b>0985</b>	<b>California School Finance Authority</b>

The Governor's budget includes no adjustments to the State Treasurer's Office or the boards, committees, commissions, and authorities identified above.

### **0977 California Health Facilities Financing Authority**

The California Health Facilities Financing Authority (CHFFA) issues revenue bonds to assist qualified private nonprofit corporations or associations, counties, and hospital districts in financing or refinancing the construction, equipping or acquiring of health facilities. CHFFA also administers the Children's Hospital Program established by Proposition 61. The CHFFA was established by Chapter 1033, Statutes of 1979. CHFFA consists of nine members: the State Treasurer, the Director of Finance, the State Controller, two public members appointed by the Senate, two public members appointed by the Assembly, and two public members appointed by the Governor.

### **1. Finance Letter: Position Augmentation for Administration Local Assistance Workload.**

The CHFFA requests \$76,000 (Children's Hospital Fund) and one junior staff analyst position to assist in the administration of local assistance grants for children's hospitals, pursuant to Proposition 61. Proposition 61, passed by voters on November 2, 2004, authorized the issuance of up to \$750 million in General Obligation Bonds to fund the Children's Hospital Program. Prop 61 allowed up to one percent of bond proceeds to be used for administration. With this position, less than one-half of one percent of the total share of bond proceeds will be devoted to administration over the life of the bond.

### **9840 Augmentation for Contingencies and Emergencies**

Each year, the Budget Act includes appropriation items in Item 9840 to be used to supplement departments' appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance (with Legislative review) based upon the determination of need.

The proposed budget includes \$79 million in combined funding for contingencies and emergencies to be funded by General Fund (\$49 million), special funds (\$15 million), and unallocated nongovernmental cost funds (\$15 million).

### **9850 Loans for Contingencies or Emergencies**

This budget item allows for up to \$2.5 million in loans to state agencies from the General Fund, under terms set by the Department of Finance. There are no budget issues associated with this item.

### **Control Section 4.75 – Statewide Surcharges**

The Administration submitted a Finance Letter to add Control Section 4.75, which will allow the Director of Finance to adjust Governor's Budget support appropriations to reflect appropriate surcharge contained in the Budget Act. This one-time adjustment will amend disallowable federal costs and make other adjustments totaling \$2.3 million and spread across 70 departments.

*Control Section 4.75. The Director of Finance may adjust departmental support appropriations for the purpose of reimbursing the Department of General Services for centralized costs billed through the statewide surcharge.*

### **VOTE ON VOTE-ONLY BUDGET ITEMS:**

## **0650 Office of Planning and Research**

The Office of Planning and Research (OPR) assists the Administration with legislative analysis and planning, research, and liaison with local governments. The OPR also oversees programs for small business advocacy, rural policy, and environmental justice. In addition, the office has responsibilities pertaining to state planning, California Environmental Quality Act assistance, environmental and federal project review procedures, and overseeing the California Service Corps. The Governor's budget funds 72.3 positions and expenditures of \$47 million.

### **1. Finance Letter: California Service Corps Volunteer Matching Database**

The Administration requests that the Office of Planning and Research budget be increased by three positions and \$1,140,000 General Fund in 2006-07, \$1,203,000 in 2007-08, and \$766,000 ongoing, to enable the California Service Corps to develop and maintain an Internet-based volunteer matching portal. This new service is intended to match volunteers with opportunities spread throughout California. The department believes this initiative will address California's low participation in volunteer opportunities relative to other states (46<sup>th</sup> in the nation) and the need for a centralized system to connect volunteers to opportunities.

The California Service Corps (CSC) has modeled the proposed web portal on the USA Freedom Corps web site ([usafreedomcorps.gov](http://usafreedomcorps.gov)), which consolidates volunteer opportunity data and directs the prospective volunteers to one of the main existing volunteer matching web sites, such as [volunteermatch.com](http://volunteermatch.com) and [1-800volunteer.org](http://1-800volunteer.org) or "hubs," such as local volunteer centers. The proposed portal will feature California opportunities exclusively, tying between 40 and 60 hubs in the state. In order to encourage up-to-date and accurate postings on the hubs, the CSC expects to sign quality assurance agreements with the organizations.

**Staff Comment:** This is not the first state-led effort of this kind. In 2001, the former Governor's Office of Service and Volunteerism (now the CSC) initiated a web site with a searchable database, a system that was discontinued in 2004 due to its search limitations, particularly a lack of volunteer opportunities. The proposed portal is intended to address those limitations, utilizing input from federal, state, local, education, and nonprofit organizations.

The BCP includes a hefty marketing component that will largely determine the success of the portal. Through a half million dollars in marketing in the first year, followed by lesser amounts in subsequent years, the OPR hopes to drive Internet users to the state portal, as opposed to one of the existing volunteer matching web sites.

The three proposed staff would perform a variety of tasks to implement the system, conduct marketing activities, and travel around the state holding workshops and training. The proposed activities are largely one-time in nature. Staff would also coordinate volunteers for disaster response, an activity now performed primarily by the American Red Cross, as well as other agencies.

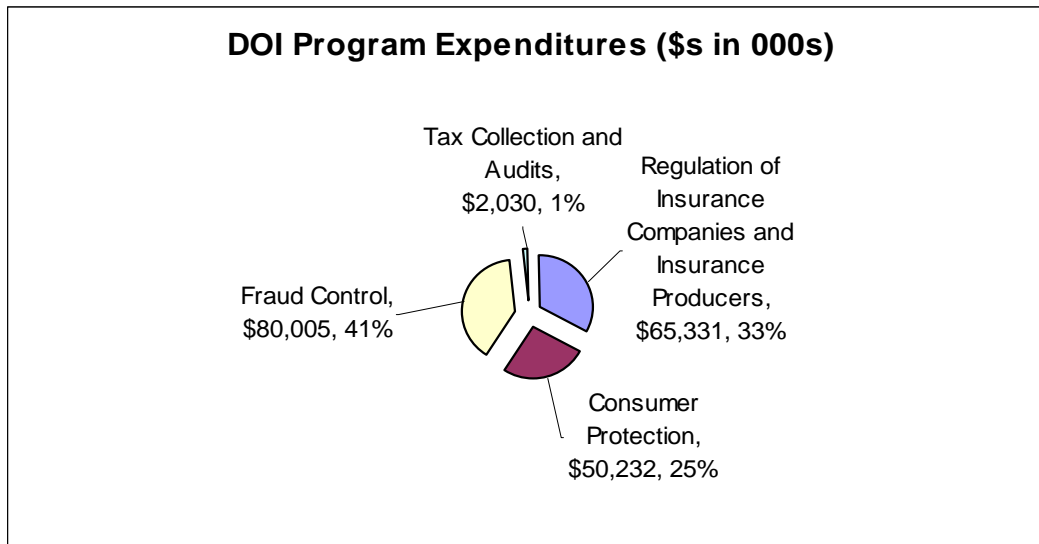
**Staff Recommendation:** Request the OPR report on:

1. Deficiencies in the nonprofit sector-led volunteer matching services (Internet and non-Internet) that suggest the state should take over this service.
2. Specific marketing strategies that would be utilized in the budget year and subsequent years.
3. Strategies to convince volunteers who don't use the Internet to utilize the portal.
4. Deficiencies in current Red Cross disaster response services that the CSC hopes to fix with this portal.

## 0845 Department of Insurance

Under the leadership of the state's Insurance Commissioner, the Department of Insurance regulates the largest insurance market in the United States with over \$115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and those insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and combats insurance fraud.

The Governor's budget funds 1272.9 positions (including 13 new positions) and expenditures of \$197.6 million.



### ***ISSUES PROPOSED FOR VOTE-ONLY***

#### **A. BCP: Local Assistance Funding for Combating Health Insurance Fraud**

The Department of Insurance requests \$1.1 million (Insurance Fund) for local assistance spending to combat health insurance fraud. These funds would be awarded to district attorneys to augment their investigations and prosecution of fraudulent health insurance claims.

#### **B. BCP: Office of Administrative Hearings Support**

The Department of Insurance requests an augmentation of \$837,728 (Insurance Fund) ongoing to address a workload increase for the Office of Administrative Hearings. If an applicant for an insurance license is likely to be denied, the applicant is offered an opportunity for hearing. The Office of Administrative Hearings in the Department of General Services administers these hearings to determine the competency and legality

of all applicants. The additional workload is reflected in the sharp increase in cases filed, from 230 in 2003-04 to an expected 730 cases in 2006-07.

**C. BCP: Implementation of AB 1183: Automobile Insurance Violations Backlog**

The Department of Insurance requests three, two-year limited term positions and \$330,000 (Insurance Fund) to address the backlog of agenda and insurance company law violations against consumers of automobile insurance. The funding level and authority for this activity were provided through Chapter 717, Statutes of 2005 (AB 1183, Vargas). AB 1183 extended the fee assessed on automobile insurers to fund investigations into violations allegedly committed by insurers against consumers.

**D. BCP: Worker's Compensation Research Funding**

The Department of Insurance requests \$1 million (Insurance Fund) to fund a research study that focuses on measuring the extent of worker's compensation insurance fraud and identifying the emerging fraud trends in that area. Funding for this study would come from a one-time assessment to be collected by the Department of Industrial Relations. A working group of DOI staff, district attorneys, academics, and other interested parties recently convened and determined that this type of study would be beneficial in better identifying areas for the DOI to focus its anti-fraud resources. This study was also recommended in an April 2004 Bureau of State Audits report.

**VOTE ON VOTE-ONLY ISSUES A THROUGH D:**

***DISCUSSION ISSUES***

**1. Finance Letter: Increase to Local Assistance Workers' Compensation Spending Authority**

The Department of Insurance requests \$1.3 million (Insurance Fund) ongoing to fund increased investigations and prosecution of workers' compensation fraud. This augmentation would raise the size of this annual subvention to local district attorneys to \$22.7 million (Insurance Fund). The need for an additional assessment on insurers for this activity was decided by the Governor-appointed Fraud Assessment Commission in December 2005.

**Staff Comment:** The workers compensation study (described in "D" above) will take a broad-based approach to measure the extent of workers' compensation fraud and the emerging trends in that area. It is highly likely that the study will suggest new or revised strategies to combat workers' compensation fraud and better ways to allocate resources. Consequently, augmenting the local assistance subvention for this anti-fraud activity on an ongoing basis is premature.

**Staff Recommendation:** Approve the \$1.3 million augmentation for one year only.

**VOTE:**

**2. BCP: Implementation of Patient and Provider Protection Act**

The Department of Insurance (DOI) requests ten positions and \$1.2 million (Insurance Fund) to implement the provisions of Chapter 723, Statutes of 2005 (SB 367). This law required the department to process complaints and inquiries from insureds and their

health care providers. This law also required the department to provide information concerning the process for filing complaints and making inquiries concerning health insurers. These positions will field those complaints and investigate unfair claims practices found during these processes.

**Staff Comment:** Both the LAO and the Department of Insurance have recognized the uncertainty of the Patient and Provider Protection Act workload. The LAO, in their *Analysis of the 2006-07 Budget Bill*, recommended that the staffing level be set at five new staff. The DOI estimates the workload, based on the input of medical groups and their own experience with similar assignments, to be between 10 and 16 positions. DOI will request additional positions in future years if the workload proves that need.

Based on new information provided at a recent Assembly Budget Sub-4 hearing, as well as discussions with staff, it appears that the DOI's workload estimate is the best available at this time. Consequently, the action of Assembly Budget Sub-4: adopting Supplemental Report Language requiring the DOI to report annually for three years on its workload and staffing requirements in implementing SB 367, and, if workload is insufficient, submit a negative BCP to correct staffing levels, appears appropriate.

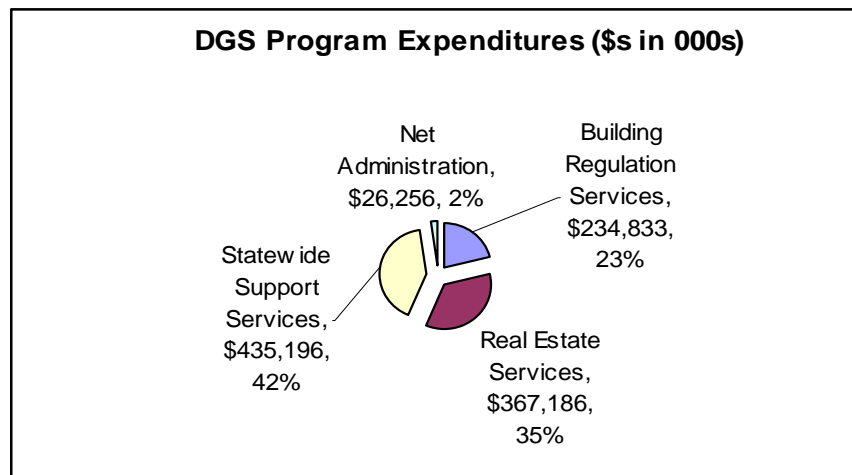
**Staff Recommendation:** APPROVE the BCP and adopt Supplemental Report Language requiring the DOI to report annually for three years to the Legislature on its workload and staffing requirements in implementing SB 367.

**VOTE:**



## 1760 Department of General Services

The Department of General Services (DGS) provides management review and centralized support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the state departments' procurement of materials, communications, transportation, printing, and security. The Governor's budget funds 3638.8 positions (including 12 new positions) and expenditures of \$1.05 billion.



### ***VOTE ONLY ISSUES***

#### **A. BCP: Operations and Maintenance for CalTrans Headquarters**

The Department of General Services requests \$885,000 Service Revolving Fund to reflect the addition of eight positions in the department's budget for operations and maintenance at several CalTrans Sacramento-area buildings. This request responds to a legislative conference committee action in 2005 to reduce CalTrans' building operations and maintenance costs and transfer responsibility to DGS. A corresponding reduction of staff occurred in the CalTrans budget.

#### **B. BCP: Public Utilities Commission Deferred Maintenance**

The Department of General Services requests \$1.021 million Service Revolving Fund to make repairs and complete deferred maintenance at the Edmund G. Brown building in San Francisco. This request conforms to an interagency agreement executed in 1998 that requires DGS to provide these services and that those requests go through the BCP process.

#### **C. Finance Letter: Public Utilities Commission Deferred Maintenance**

The Department of General Services requests \$101,000 Service Revolving Fund to paint the courtyard stairwells at the Edmund G. Brown building in San Francisco. This request augments the \$1 million request described in issue B above.

**D. BCP: Building and Property Repairs**

The Department of General Services requests a permanent, \$2.5 million Service Revolving Fund augmentation for special repairs projects at specified DGS buildings. DGS has identified a total existing deferred maintenance need in these buildings of \$12.9 million.

**E. BCP: Service Level Reduction at the Stanford Mansion**

The Department of General Services requests a reduction of \$271,000 and four positions for maintenance activities at the Stanford Mansion. The Department of Parks and Recreation (who operates the mansion) has determined that the current maintenance activity level is no longer needed.

**F. BCP: Central Heating and Cooling Plant, Sacramento**

The Department of General Services requests \$128,000 Service Revolving Fund to pay for water quality monitoring and permit fees for the DGS Central Services Plant at 628 Q Street in Sacramento. DGS expects to complete an overhaul of the Central Plant in 2009 and will submit project BCPs annually until the project is complete.

**G. BCP: Procurement Division/Interagency Support Division Realignment**

The Department of General Services requests to reorganize the Material Services and Statewide Records Management Programs in the Procurement Division by shifting them into the Interagency Support Division. The department believes that shedding these programs in the Procurement Division will enable them to better focus on its procurement mission. This shift moves 48.5 personnel years and \$6.8 million in Service Revolving Fund Expenditure Authority.

**H. BCP: Operating Expense Reconciliation for Personnel Services Reductions**

The Department of General Services requests to reduce their expenditure authority to reflect operating expense savings that should have been captured with earlier statewide personnel services reductions. For DGS, Control Section 31.60 of the 2002 Budget Act eliminated 196 positions and Control Section 4.10 of the 2003 Budget Act eliminated 407 positions. Corresponding operating expense reductions did not occur at the time due to uncertainty over departmental needs. Total Service Revolving Fund and Architecture Revolving Fund reductions would be \$7.8 million.

**I. BCP: Support for Emergency Telephone Services**

The Department of General Services requests four positions and \$815,000 in Emergency Telephone Number Account funding to enable compliance reviews of local 911 services and enhance the state's 911 telephone infrastructure. The department must monitor local Public Safety Answering Points' (PSAPs) use of these funds through compliance reviews, which involves verifying compliance with statewide standards.

**J. BCP: Convert Real Estate Officer Positions to Permanent**

The Department of General Services requests to convert two real estate officer positions from limited-term to permanent. These positions would address Due Diligence workloads required of the department for all lease-revenue bond-funded projects. These positions are funded at \$169,000 Service Revolving Fund. The department believes that not disapproving these positions will delay projects and increase overall projects.

**K. Finance Letter: Maintenance and Custodial Services of CalTrans Traffic Management Center**

The Department of General Services requests \$852,000 and ten positions ongoing to perform maintenance and custodial duties at the new Traffic Management Center in Los Angeles. CalTrans requested these services be provided by DGS at this facility.

**L. Finance Letter: 721 Capitol Mall Building Reopening**

The Department of General Services requests 2.2 positions and \$250,000 Service Revolving Fund in 2006-07 and 10.3 positions and \$1.2 million Service Revolving Fund to provide maintenance and custodial services at the new office building. This building had been vacated and renovated and will now be occupied by the Department of Rehabilitation.

**M. Finance Letter: Technical Correction to State Emergency Telephone Number Account**

The Department of General Services requests to reduce the local assistance appropriation in Item 1760-101-0022 by \$19,303,000 to reflect the proposed level of expenditures. The technical error reflects the inclusion of one-time costs that should have been excluded from the budget year projection. According to the department, this correction will not reduce their ability to meet operational obligations.

In addition to this correction, the department requests to revise Item 1760-101-0022 to separately schedule program and subvention expenditures. The following budget bill language makes that change:

*1760-101-0022--For local assistance, Department of General Services, for reimbursement of local agencies and service suppliers or communications equipment companies for costs incurred pursuant to Sections 41137, 41137.1, 41138, and 41140 of the Revenue and Taxation Code, payable from the State Emergency Telephone*

*Number Account . . . ~~171,573,000~~ 152,270,000*

*(1) 911 Emergency Telephone Number System.....104,523,000*

*(2) Enhanced Wireless Services.....47,747,000*

**N. Finance Letter: Fred C. Nelles Facility in Whittier**

The Department of General Services requests \$607,000 to complete the sale of 75 acres of the Fred C. Nelles Youth Correctional Facility. These funds will be used to hire private consulting services for final activities needed to resolve the sale. This will include environmental reviews, negotiating the purchase agreement, processing entitlements, and working with local stakeholders to facilitate the sale. The Department estimates this sale will be finalized in 2007-08 with revenues of approximately \$106 million.

The following budget bill language would be needed to implement this change.

*1760-001-0002--For support of Department of General Services, for payment to Item 1760-001-0666, payable from the Property Acquisition Law Money Account . . . 3,050,000*

*Provisions:*

*1. Of the amount appropriated in this item, ~~\$1,100,000~~ \$1,707,000 is a loan from the General Fund, provided for the purposes of supporting the management of the state's real property assets.*

**O. Capital Outlay Finance Letter: Reappropriation of Funding for Structural Retrofit of San Quentin Building 22**

The Department of General Services requests \$1.182 million (Earthquake Safety Public Building Rehabilitation Fund of 1990) to extend the appropriation for the working drawings phase for the structural retrofit of Building 22 at San Quentin State Prison. The project schedule has been extended due to delays in the completion of modular buildings for swing space. The construction contract is expected to be awarded in August 2006.

The following budget bill language would implement this reappropriation:

*1760-491—Reappropriation, Department of General Services. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2007.*

*0768—Earthquake Safety and Public Building Rehabilitation Fund 1990*

*(1) Item 1760-301-0768, Budget Act of 2002 (Ch. 379, Stats. 2002), as reappropriated by 1760-491, Budget Act of 2005 (Ch. 38/39, Stats. 2005).*

*(10) 50.99.079-Department of Corrections, San Quentin, Building 22:  
Structural Retrofit—Working drawings*

**P. Capital Outlay Finance Letter: Reversion of Funding for Structural Retrofit of Hospital Building, Wing B at Deuel Vocation Institute.**

The Department of General Services requests to revert \$1.753 million (Earthquake Safety Public Building Rehabilitation Fund of 1990) for the structural retrofit of Hospital Building, Wing B at Deuel Vocation Institute. The project encountered delays in completing the heating and air conditioning elements of the project, leading to an \$827,000 increase in the construction cost. The reverted savings will be added to the \$2.58 million appropriation described below.

The following budget bill language would implement this reversion:

*1760-495—Reversion, Department of General Services. As of June 30, 2006, the unencumbered balances of the appropriation provided for in the following citation shall revert to the balance of the fund from which it was made:*

*0768—Earthquake Safety and Public Building Rehabilitation Fund 1990*

*(1) Item 1760-301-0768, Budget Act of 2002 (Ch. 379, Stats. 2002), as reappropriated by 1760-490, Budget Act of 2005 (Ch. 38/39, Stats. of 2005).*

*(3) 50.99.091-California Department of Corrections, DVI, Tracy, Hospital Building: Structural Retrofit—Construction*

**Q. Capital Outlay Finance Letter: Increased Costs for Structural Retrofit of Hospital Building, Wing B at Deuel Vocation Institute.**

The Department of General Services requests \$2.58 million (Earthquake Safety Public Building Rehabilitation Fund of 1990) to complete the construction phase of seismic repairs to the Hospital Building, Wing B at Deuel Vocation Institute. The project encountered delays in completing the heating and air conditioning elements of the project, leading to an \$827,000 increase in the construction cost. The \$2.58 million cost includes \$1.753 million in reverted funding, described above.

**VOTE ON VOTE-ONLY ISSUES A THROUGH Q:**

## DISCUSSION ISSUES

### 1. New General Fund Commitment for Seismic Safety Expenditures.

The Department of General Services administers the State's Seismic Retrofit Program. The department's criteria and evaluation process are used to assess seismic risk and assign priorities for those buildings deemed most vulnerable to a major earthquake.

The DGS has submitted ten capital outlay BCPs for seismic safety-related expenditures for state buildings. Altogether, these BCPs will cost \$3.7 million General Fund in the budget year and commit the state (at least informally) to an estimated \$27.9 million in General Fund expenditures in 2008-09. Following are descriptions of those BCPs and the associated budget year and 2007-08 General Fund commitment.

Description of Capital Outlay BCP	2006-07 GF Expenditures (Dollars in Thousands)	2007-08 GF Expenditures (Dollars in Thousands)
<b>A. Department of Veteran's Affairs Yountville East Ward</b> The Department of General Services requests \$336,000 General Fund for preliminary plans and working drawings for an earthquake retrofit of the East Ward of the Veteran's Home in Yountville. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: \$141</b>  <b>Working Drawings: \$195</b>	<b>\$2040</b>
<b>B. CDC Tehachapi Chapels Facility (Building H)</b> The Department of General Services requests \$326,000 General Fund for preliminary plans and working drawings for the Chapels Facility (Building H) at the California Department of Corrections Tehachapi facility. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 160</b>  <b>Working Drawings: 166</b>	<b>1660</b>
<b>C. Stockton National Guard Armory</b> The Department of General Services requests \$370,000 General Fund for preliminary plans and working drawings for the Stockton National Guard Armory. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 185</b>  <b>Working Drawings: 185</b>	<b>1446</b>
<b>D. Vocational Building at the California Correctional Center in Susanville</b> The Department of General Services requests \$336,000 General Fund for preliminary plans and working drawings for the Vocational Building at the California Correctional Center in Susanville. DGS has determined this structure to be seismically deficient.	<b>Preliminary Plans: 143</b>  <b>Working Drawings: 193</b>	<b>4862</b>
<b>E. Vacaville Correctional Medical Facility, Wings U, T, and V</b> The Department of General Services requests \$855,000 General Fund for preliminary plans and working drawings for the Vacaville Correctional Medical Facility, Wings U, T, and V. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 403</b>  <b>Working Drawings: 452</b>	<b>8756</b>

<b>F. California Institute for Women Infirmaries at Frontera and Corona – Walker Clinic</b> The Department of General Services requests \$391,000 General Fund for preliminary plans and working drawings for the California Institute for Women—Walker Clinic at Frontera and Corona. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 203</b>  <b>Working Drawings: 188</b>	<b>2143</b>
<b>G. California Institute for Women Infirmaries at Frontera and Corona-Infirmery Building</b> The Department of General Services requests \$369,000 for preliminary plans and working drawings for the California Institute for Women Infirmery at Frontera and Corona. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 190</b>  <b>Working Drawings: 179</b>	<b>1920</b>
<b>H. Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California</b> The Department of General Services requests \$460,000 General Fund for preliminary plans and working drawings for the Department of Mental Health Metropolitan State Hospital – Wards 206 and 208 in Norwalk, California. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 215</b>  <b>Working Drawings: 245</b>	<b>3222</b>
<b>I. California Department of Corrections Jamestown Buildings E and F</b> The Department of General Services requests \$224,000 General Fund for preliminary plans and working drawings for the California Department of Corrections Jamestown Buildings E and F. DGS has determined these structures to be seismically deficient.	<b>Preliminary Plans: 102</b>  <b>Working Drawings: 122</b>	<b>1193</b>
<b>J. Program Management Services</b> The Department of General Services requests \$500,000 from the Earthquake Safety and Public Building Rehabilitation Fund of 1990 (Fund 0768) to administer the Seismic Retrofit Program to administer the state's Seismic Retrofit Program. These staff provide expertise in project management and coordination of projects that are funded by other DGS client departments. The Department expects to request \$700,000 General Fund in 2007-08 and \$675,000 in 2008-09 for this activity.	<b>\$0</b>	<b>\$700</b>
<b>TOTAL GENERAL FUND SPENDING:</b>	<b>\$3,667</b>	<b>\$27,942</b>

**Staff Comment:** While these ten BCPs represent a relatively small capital outlay commitment in the budget year, they signal a much greater General Fund commitment in 2007-08 and the years following. According to the Governor's Five-Year Infrastructure Plan, DGS has identified 24 buildings with "critical infrastructure deficiencies." Without the identification of another fund source or adjustment to the current schedule, seismically retrofitting all of these structures will cost \$170 million General Fund over the five-year period.

Prior to these proposals, seismic retrofit projects for state buildings were funded out of proceeds from the 1990 Seismic Bond Act. That bond provided \$250 million in general obligation bonds for the purpose of earthquake safety improvements to state buildings. The bond funds have been depleted to fix the most urgently needed seismic repairs (seismic Levels VI and VII), and now the department plans to continue its retrofit of all Level V buildings.

As noted, these expenditures were included in the Governor's Five-Year Infrastructure Plan and were proposed to be a part of that \$68 billion general obligation bond. With that bond plan apparently suspended, the Legislature faces a large new General Fund commitment for seismic retrofit of state buildings.

The state has made no statutory commitment to completing these seismic retrofit projects by a certain date.

An alternative to funding preliminary plans and working drawings in the same year would be to defer spending on working drawings until 2007-08 or later. There would be no practical impact on completion schedules as working drawings and construction phases can be accomplished in the same year. In the event that bond funding becomes available for 2007-08, perhaps authorized in a November 2006 bond measure, the Legislature could fund working drawings and construction costs out of those bond funds. If working drawings and construction phases were delayed beyond 2007-08, the preliminary plans developed in the budget year would still be used for these projects.

**Staff Recommendation:** AMEND capital outlay BCPs A through J (above) by funding preliminary plans only (a savings of \$1.925 million General Fund) and request the Administration report on the outlook for alternative fund sources for later phases of these capital outlay projects.

**VOTE:**

**2. BCP: Establish Baseline Equipment Budget for New Properties**

The Department of General Services, Real Estate Services Division, requests an increase of \$185,000 Service Revolving Fund (to \$300,000/year) to ensure major equipment is procured as new buildings are completed and when BPM assumes operations and maintenance of existing facilities. Major equipment for operations and maintenance includes items such as riding mowers, fork lifts, and sidewalk sweepers. DGS has over \$1.97 million in major equipment in service at this time.

**Staff Comment:** The information provided by the department indicates that \$112,000 of the \$185,000 increase in equipment are for new properties (CalTrans Dist 11 and the FTB main office building) that should have been funded with allocations for major equipment when they were constructed. Consequently, the demonstrated *ongoing* need (after the major equipment for the FTB and CalTrans buildings is funded) is \$73,000, not \$185,000.

**Staff Recommendation:** AMEND the BCP as follows: approve the \$185,000 augmentation for 2006-07 only and approve a \$73,000 ongoing augmentation for major maintenance and operations equipment.

**VOTE:**

**3. BCP: Building Security Augmentation at State Buildings**

The Department of General Services requests \$1.2 million ongoing Service Revolving Fund for increased security costs at five state buildings. These additional expenses are based on reduced service commitments by the CHP at the Ronald Reagan building and

other minor cost increases at four other state buildings. The department will fund these security augmentations through an assessment on building tenants.

**Staff Comment:**

The state has no standard security requirement for its buildings. The California Highway Patrol may provide a security assessment and recommendation, but there is no central security oversight or advisor. Departments ascertain by themselves what the best level of building security is for their facility, or, in buildings with multiple tenants, all tenants collectively decide to increase their facilities needs. DGS then prepares a cost estimate and presents it to the tenants.

Requests for security augmentations since 9/11 have occurred on a piecemeal basis and there is neither a minimum nor a maximum level of expenditures that a department may devote to building security. Security enhancements can be very expensive. It has been estimated that outfitting all state-owned buildings with x-ray scanners would cost between \$40 and \$50 million. To the extent that departments do enhance their building security, they either absorb the cost or request an augmentation.

**Staff Recommendation:** HOLD open and request DGS:

1. Describe the involvement of the Office of Homeland Security in setting state building security levels.
2. Recommend measures to track and control security costs for state buildings.
3. Identify emerging trends in state building security and the anticipated costs.
4. Provide proposed standard security measures and cost ceilings to the Subcommittee at a later date.

**4. BCP: State Revolving Fund Loan to Motor Vehicle Parking Fund**

The Department of General Services' Office of Fleet Administration requests a one-time loan of \$1.772 million from the Service Revolving Fund to cover cash shortages in the Motor Vehicle Parking Fund. This fund receives its revenues from the parking fees assessed on client parkers. The shortfall is due primarily to increased debt service payments on an East End parking lot. The Office of Fleet Administration expects to reduce expenditures to in order to make payments. The loan would be paid off in 2011-12. The following budget bill language would enable the transfer:

*1760-001-0001—For transfer by the Controller, upon order  
of the Director of Finance, to the Motor Vehicle Parking  
Facilities Moneys Account.....(1,772,000)*

*Provisions:*

*(1) The transfer made by this item is a loan to the Motor Vehicle  
Parking Facilities Money Account and shall be repaid as soon as  
there are sufficient moneys in the recipient fund, but not later than  
2011-2012.*

**Staff Comment:** The department cites permanent expenditure reductions as the mechanism to pay for these costs.



**Staff Recommendation:** APPROVE the BCP and request the department report on the specific expenditure reductions that must occur in order to repay the loan and the impact on state employees.

**VOTE:**

#### **4. Emergency Telephone- Enhanced Wireless Services**

The Department of General Services requests appropriations of \$32 million in 2006-07, \$2.4 million in 2007-08, and \$306,000 in 2008-09 (State Emergency Telephone Number Account) to fully implement enhanced wireless 911 services statewide. This upgraded service will benefit the state's approximately 12 million wireless telephone users who will be connected into a system that will allow their phone number and location to be shown on a dispatcher's computers screen. This BCP request will tie-in wireless services in the rural, less populated areas of California and facilitate the turnover of off-highway wireless 911 calls to local public safety answering points (PSAPs).

**Staff Comment:** DGS has encountered lengthy delays in spending 911 funds to expand wireless 911 coverage. Over the last three years, DGS has submitted BCPs revising their expenditure plan, repeatedly citing "technological, regulatory, and scheduling issues" as the cause for delayed implementation.

DGS must continue to adapt to the state's 911 services to changing technologies. The two most prominent emerging 911 needs are Internet provider based voice communications (Voice Over Internet Protocol or VOIP) and data-based 911 "calls" (example: 911 messages sent via instant message or from a laptop). The existing 911 system was not designed to deal with these technologies and a major investment will be needed. DGS must enable the implementation of systems that can handle these types of 911 calls for the state's primary 911 responder (the California Highway Patrol), as well as the local PSAPs.

At this point, DGS does not have an approved plan to upgrade 911 systems to VOIP or data-based calls and no expenditures for those purposes are included in the proposed budget. When a plan is created, the Legislature will review it through the BCP process. Similar to wireless 911 services where California led the nation in creating that 911 technology, California is expected to be on the leading edge of VOIP and data-based 911 technologies.

Section 41030 of the Revenue and Taxation Code requires DGS to determine and set the fee to pay for 911 services. That fee may be set between .50 percent and .75 percent of a phone user's intrastate phone charges.

Under DGS oversight, the balance of the State Emergency Telephone Number Account has accrued to an unnecessarily high level and will remain so for at least the next three years. Balances in the State Emergency Telephone Number Account are displayed in the table below.

Year	Reserve (Dollars in Thousands)
2001-02	\$35,294
2002-03	\$62,144
2003-04	\$87,658
2004-05	\$117,495
2005-06	\$95,842*
2006-07	\$62,159 (projected)
2007-08	\$57,985 (projected)
2008-09	\$55,968 (projected)

\*DGS lowered the rate from .72 to .65 in for 2005-06.

Set at .65 percent, the current fee will generate approximately \$130 million this year. (This figure represents an increase of \$5 million relative to the proposed budget number, due to higher than expected revenues.) If the fee were lowered to the statutory minimum, .50 percent of intrastate phone charges, the state would collect an estimated \$107 million in 2006-07 and \$100 million in 2007-08. A reserve of approximately \$40 million would be maintained in 2006-07 and \$35 million in 2007-08. These reserves would constitute more than 25 percent of annual expenditures, a very prudent reserve level.

With no plan to spend the significant balance, an unnecessarily large fund balance, and the option to increase the fee next year if a plan to expand 911 to VOIP and data-based calls is approved by the Legislature, there is no valid reason to maintain the fee at .65.

A prudent reduction in the Emergency Telephone Number Fee to .50 percent will provide approximately \$50 million in tax relief to telephone users over the next two years.

**Staff Recommendation:**

1. APPROVE the BCP.
2. Adopt trailer bill language reducing the charge from .65 to .50 percent for 2006-07 and 2007-08.

**5. Strategic Sourcing Update**

Strategic Sourcing is a private contractor-managed effort to leverage the State's buying power to facilitate bulk purchasing. The Administration's Strategic Sourcing concept involves analyzing what the state is buying, market conditions, and potential suppliers, and then leveraging purchases for the best deal.

One way in which DGS has recognized savings was through the establishment of State-defined standard for technology, also known as common configurations. The state's Chief Information Officer Council selected these configurations, a first in the state's history of IT procurement. The common configurations are expected to simplify technical support, streamline processes, and create greater interoperability.

Control Section 33.50 of the 2005 Budget Act provides the current statewide authority for the Administration's Strategic Sourcing initiative. That control section states the following:

*SEC. 33.50. Notwithstanding any other provision of law, the Department of Finance is authorized to periodically reduce amounts in items of appropriation in this act for the 2005-06 fiscal year to reflect savings resulting from California's Procurement Initiative for the 21<sup>st</sup> Century. The Director of Finance shall notify the Chairperson of the Joint Legislative Budget Committee at least 30 days prior to reducing any item of appropriation. The notice shall include, but is not limited to: (a) identifying which department received the savings; (b) identifying when and how the savings were achieved; (c) identifying the types of goods and services as to which savings were achieved; and (d) describing the methodology used to calculate the savings.*

This current year budget language is not included in the 2006-07 budget bill.

**Staff Comment:** In the 2005-06 Governor's Budget, the Administration assumed that it could generate \$96 million in savings in 2005-06. This target was later eliminated in the 2005 Budget Act, in part because the Administration recognized that any savings realized could be better used by departments to meet their \$100 million in unallocated reductions target for the current year.

According to DGS, expected savings from Strategic Sourcing are estimated at \$171 million over the next three years. Savings are expected to occur across multiple categories, including office supplies, computers, servers, copiers, and pharmaceutical purchases. However, these savings are hard to confirm, largely because of the difficulty in verifying that identified Strategic Sourcing savings might not have otherwise occurred.

The perspective that Strategic Sourcing savings could be used by departments to meet their \$200 million in unallocated reductions for the budget year has again been suggested by the Administration. Were it possible to verify their existence, then certainly identifiable savings from contracts would be a more straightforward way to recognize departmental savings, as opposed to a blanket \$200 million unallocated reduction.

While savings have been minimal and difficult to verify, the intent of the current year budget bill language remains valid and should be preserved as a means to identify strategic sourcing savings, in particular as they offset unallocated reductions.

A better means to apprise the Legislature of Strategic Sourcing savings would be to have DOF report to the Legislature on amounts paid to the CGI-AMS contract and reduce appropriations as contract payments are made. According to the contract, DGS must pay CGI-AMS approximately 10.5 percent of the realized savings. The following budget bill language would tie these payments to reductions in appropriations.

*SEC. 33.50. Notwithstanding any other provision of law, the Department of Finance shall periodically reduce amounts in items of appropriation in this act for the 2006-07 fiscal year for all savings tied to contractor payments for California's Procurement Initiative for the 21<sup>st</sup> Century. The Director of Finance shall report quarterly to the Chairperson of the Joint Legislative Budget Committee on payments to the contractor hired for the Procurement Initiative for the 21<sup>st</sup> Century and at least 30 days prior to reducing any item of appropriation. The notice on reducing appropriations shall include, but is not limited to: (a) identifying which department received the savings; (b) identifying when and how the savings were achieved; (c) identifying the types of goods and services as to which savings were achieved; and (d) describing the methodology used to calculate the savings.*

**Staff Recommendation:** Adopt Control Section 33.50 (above) and request the Administration report on estimated savings during the budget year by department.

**VOTE:**